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UNCLAS ANKARA 003693

SIPDIS

SENSITIVE

STATE FOR E, EUR/SE AND EB/IFD
TREASURY FOR OASIA - MILLS AND LEICHTER
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E.O. 12958: N/A

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SUBJECT: UPDATE ON PROGRESS ON IMF REVIEW

REF: ANKARA 3536

11. (SBU) IMF ResRep (strictly protect) told us late today that he was not thrilled with the GOT's rate of progress toward meeting the conditions for the upcoming Fifth Review of the program. He expressed doubt that the government would be able to complete all of the outstanding work in time for the Fund Board to meet this month.

12. (SBU) On the fiscal side, Treasury U/S Ibrahim Canakci told us June 5 that the bureaucracy had identified measures to close most of this year's projected gap, but still had to present those measures to the Prime Minister for "reaction." Meanwhile, he and his staff continue to work with other Ministries, including the Energy Ministry, to identify additional measures. IMF ResRep was slightly more negative. He said the May figures (which came in June 5) for the Central Government budget were "pretty bad," confirming a problematic fiscal trend. His understanding is that the measures the government has identified so far would close only one-half of the fiscal gap. However, the government also has announced cutting taxes on cars (to spur domestic demand) and reducing electricity prices for exporters. All in all, ResRep believes the Fund and GOT are still some distance away from completing the fiscal side of the LOI.

13. (SBU) On the structural side, Canakci said the government had decided to put some priority legislation on Turkey's version of the "fast track" (by making them "fundamental laws"). As of June 5, Parliament was discussing this approach for the critical legislation affecting Turkey's three social security funds. He predicted (correctly) that Parliament would pass the Foreign Investment Law that evening, and noted that it was moving ahead on bankruptcy and other legislation. IMF ResRep noted that the Fund and GOT had not yet agreed on the "arrears rescheduling" language in the social security legislation. Here, the Fund is insisting that the legislation make clear that any rescheduling of arrears would not be generalized. ResRep confirmed that the GOT was making good progress on the eight structural benchmarks.

14. (SBU) Canakci (privately) and State Minister Babacan (publicly) both continue to express hope that the review can be completed this month, although both acknowledged the possibility of a delay. As noted above, ResRep thinks a Board meeting by end-June is increasingly unlikely.

14. (SBU)

13. (SBU)
PEARSON